



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
FORMER WHITLEY COUNTY SHERIFF**

Calendar Year 1996

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY
WHITLEY COUNTY
H. D. MOSES, FORMER SHERIFF
CALENDAR YEAR 1996

Former Sheriff H. D. Moses' receipts were materially misstated and we could not confirm the former Sheriff received his full statutory maximum salary for calendar year 1996. For these reasons, we have issued a qualified opinion on the Sheriff's financial statement.

Report Findings:

Former Sheriff H. D. Moses kept poor records. Deposits for receipts were not made daily, no quarterly reports were submitted to the State Local Finance Officer, and no financial statement was prepared or presented to the fiscal court. The following comments are included in the former Sheriff's audit report:

- The Fiscal Court Should Require Better Recordkeeping Of The Sheriff's Office
- Former Sheriff H. D. Moses Did Not Present An Annual Settlement To The Fiscal Court Nor Did He Publish An Annual Settlement In The Local Newspaper
- Former Sheriff H. D. Moses Should Have Submitted Quarterly Reports To The State Local Finance Officer
- Former Sheriff H. D. Moses Did Not Maintain Adequate Time Records For All Employees Of His Office
- Former Sheriff H. D. Moses Should Have Required The Depository Institution To Pledge Or Provide Sufficient Collateral and Should Have Entered Into A Written Agreement To Protect Deposits
- The Former Sheriff's Office Lacked A Proper Segregation Of Accounting Duties

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Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Mike Patrick, Whitley County Judge/Executive
Honorable Ancil Carter, Whitley County Sheriff
Honorable H. D. Moses, Former Whitley County Sheriff
Members of the Whitley County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former Sheriff of Whitley County, Kentucky, for the year ended December 31, 1996. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the former Sheriff was required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

The former Whitley County Sheriff did not prepare a financial statement for calendar year 1996. We were able to use the former Sheriff's receipts and disbursements ledgers to prepare a financial statement. However, receipts per the former Sheriff's receipts ledger were \$6,746 less than amounts deposited into the former Sheriff's official bank account. Therefore, we have adjusted the former Sheriff's receipts ledger and the accompanying financial statement by adding \$6,746 in receipts to agree to total amounts deposited into the former Sheriff's official bank account. This adjustment was material to the financial statements taken as a whole. Furthermore, the former Sheriff did not maintain payroll records that allowed us to determine whether the former Sheriff received his full statutory salary for calendar year 1996. The former Sheriff's disbursement ledger did not detail disbursements in a manner that allowed us to confirm the full amount of salary taken by the former Sheriff. We were unable to conduct other auditing procedures to satisfy ourselves as to the nature of the variance in receipts, the proper classification of the adjustment, and whether the former Sheriff received his full statutory maximum salary.

To the People of Kentucky
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Honorable H. D. Moses, Former Whitley County Sheriff
Members of the Whitley County Fiscal Court

In our opinion, except for the areas reported in the previous paragraph, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former Sheriff for the year ended December 31, 1996, in conformity with the basis of accounting described above.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following areas of noncompliance:

- The Fiscal Court Should Require Better Recordkeeping Of The Sheriff's Office
- Former Sheriff H. D. Moses Did Not Present An Annual Settlement To The Fiscal Court Nor Did He Publish An Annual Settlement In The Local Newspaper
- Former Sheriff H. D. Moses Should Have Submitted Quarterly Reports To The State Local Finance Officer
- Former Sheriff H. D. Moses Did Not Maintain Adequate Time Records For All Employees Of His Office
- Former Sheriff H. D. Moses Should Have Required The Depository Institution To Pledge Or Provide Sufficient Collateral And Should Have Entered Into A Written Agreement To Protect Deposits
- The Former Sheriff's Office Lacked A Proper Segregation Of Accounting Duties

In accordance with Government Auditing Standards, we have also issued a report dated May 24, 2000, on our consideration of the former Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 24, 2000

WHITLEY COUNTY
H. D. MOSES, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1996

Receipts

Federal Grants		\$	4,076
State Fees For Services:			
Finance and Administration Cabinet			6,068
Circuit Court Clerk:			
Sheriff Security Service			6,941
Fiscal Court			4,400
County Clerk - Delinquent Taxes			12,899
Commission on Taxes Collected			155,808
Fees Collected For Services:			
Auto Inspections	\$	4,188	
Accident and Police Reports		74	
Serving Papers		15,257	19,519
Other:			
Carrying Concealed Deadly Weapon Permits	\$	6,960	
Transporting Convicts		2,181	
Miscellaneous		4,210	
Auditor's Adjustment		6,746	20,097
Interest Earned			323
Borrowed Money:			
State Advancement	\$	50,407	
Bank Note		20,000	70,407
Gross Receipts (Carried Forward)		\$	300,538

WHITLEY COUNTY
H. D. MOSES, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
Calendar Year 1996
(Continued)

Gross Receipts (Brought Forward)	\$	300,538
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Disbursements

Operating Disbursements:

Personnel Services-

Deputies' Gross Salaries	\$	132,584
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Materials and Supplies-

Office Materials and Supplies		6,000
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Auto Expense-

Maintenance and Repairs		18,569
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Vehicle Insurance		3,643
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Other Charges-

Carrying Concealed Deadly Weapon Permits		1,980
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Conventions and Travel		77
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Dues		50
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Postage		5,474
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Insurance		250
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Bond		792
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Miscellaneous		10,258
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Debt Service-

State Advancement		50,407
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Notes		20,000
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Interest		4,078
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Total Disbursements		<u>254,162</u>
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Net Receipts	\$	46,376
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Less: Statutory Maximum		<u>46,376</u>
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Excess Fees Due County	\$	<u><u>0</u></u>
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The accompanying notes are an integral part of the financial statement.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 1996

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.65 percent.

WHITLEY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 1996
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff's office and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of June 28, 1996, the uncollateralized amount on deposit was \$549,430. The pledged or provided collateral and FDIC insurance did not equal or exceed the amount on deposit. In addition, the former Sheriff did not have a written agreement with the depository institution.

The former Sheriff's deposits are categorized below to give an indication of the level of risk assumed by the former Sheriff at June 28, 1996.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 2,050,000
Uncollateralized and uninsured	<u>549,430</u>
Total	<u><u>\$ 2,599,430</u></u>

Note 4. Note Payable

The office of the former Sheriff is liable for an unsecured note payable to Community Trust Bank in the amount of \$25,000. It was necessary for the Sheriff to borrow the money for operating the office because of late tax collections. The note matures upon demand and the interest rate is 9%. The loan was obtained during calendar year 1995. As of December 31, 1996, the loan balance was \$25,000. The note was paid in full on January 27, 1997.

COMMENTS AND RECOMMENDATIONS

WHITLEY COUNTY
H. D. MOSES, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

Calendar Year 1996

STATE LAWS AND REGULATIONS:

1) The Fiscal Court Should Require Better Recordkeeping Of The Sheriff's Office

Under authority of KRS 68.210, the State and Local Finance Officer has established the Uniform System of Accounts which requires the maintenance of receipts and disbursements ledgers and that monthly bank reconciliations be prepared. Furthermore, KRS 67.080(1)(d) states the fiscal court may cause correct accounts and records to be kept of all receipts and disbursements of public funds of the county. Former Sheriff H. D. Moses did not make daily bank deposits of receipts collected by his office and reconcile receipts to daily cash checkout sheets, nor did he reconcile his bank statements monthly to his cash receipts and disbursements ledgers. In addition, he did not post all bank deposits to the receipts ledger and all expenditures to the disbursements ledger. Furthermore, the former Sheriff did not prepare the financial statement. We were able to use the former Sheriff's receipts and disbursements ledgers to prepare a financial statement for calendar year 1996. However, the receipts ledger total was \$6,746 less than amounts deposited into the former Sheriff's official bank account. Therefore, we have adjusted the former Sheriff's receipt ledger and the accompanying financial statement by adding \$6,746 to agree with the former Sheriff's official operating account. This adjustment was material to the financial statements taken as a whole. We were unable to conduct other auditing procedures to satisfy ourselves as to the nature of the variance in receipts as noted above. We recommend the Sheriff's office make daily bank deposits of receipts collected, reconcile receipts to daily cash checkout sheets, comply with the Uniform System of Accounts by reconciling monthly bank account activity to the receipts and disbursements ledgers, and post all receipts and disbursements to the ledgers. We also recommend the fiscal court comply with KRS 67.080(1)(d) by requiring the Sheriff's office to maintain correct accounts and records of all receipts and disbursements of the office.

Former Sheriff H. D. Moses' Response:

This has been corrected for the current Sheriff.

2) Former Sheriff H. D. Moses Did Not Present An Annual Settlement To The Fiscal Court Nor Did He Publish An Annual Settlement In The Local Newspaper

Former Sheriff H. D. Moses did not present an annual financial statement to the fiscal court nor did he publish an annual settlement in the local newspaper. KRS 134.310 requires the Sheriff's office to present an annual settlement to the fiscal court. KRS 424.220 requires the Sheriff to publish an annual financial statement within 60 days after the close of the calendar year. We recommend the Sheriff's office comply with KRS 134.310 and KRS 424.220 by presenting an annual settlement to the fiscal court and by having this annual settlement published in the local newspaper.

Former Sheriff H. D. Moses' Response:

The Sheriff's office is now preparing financial statements.

WHITLEY COUNTY
H. D. MOSES, FORMER SHERIFF
Calendar Year 1996
(Continued)

3) Former Sheriff H. D. Moses Should Have Submitted Quarterly Reports To The State Local Finance Officer

Former Sheriff H. D. Moses did not submit quarterly reports to the State Local Finance Officer for calendar year 1996. KRS 68.210 gives the State Local Finance Officer the authority to require all local government officials to submit financial reports as he may deem proper. The state local finance officer has required the fee officials to submit quarterly financial reports. KRS 68.990 states, in part, "Any local government official who fails to submit a financial report requested by the State Local Finance Officer . . . shall, fifteen (15) days after written notice of noncompliance by the state local finance officer, be fined \$250 per day until compliance." We recommend the Sheriff's office submit quarterly financial reports as required by the State Local Finance Officer.

Former Sheriff H. D. Moses' Response:

The Sheriff's office is now submitting quarterly reports to the Department for Local Government.

4) Former Sheriff H. D. Moses Did Not Maintain Adequate Time Records For All Employees Of His Office

Former Sheriff H. D. Moses did not maintain adequate time records for employees of his office. KRS 337.320 states, "Every employer shall keep a record of the amount paid each pay period to each employee; the hours worked each day and each week by each employee; . . ." The former Sheriff did not maintain formal records of the hours worked each day and each week by each employee. We recommend the Sheriff's office comply with KRS 337.320 by maintaining adequate records for all employees.

Former Sheriff H. D. Moses' Response:

Okay.

5) Former Sheriff H. D. Moses Should Have Required The Depository Institution To Pledge Or Provide Sufficient Collateral And Should Have Entered Into A Written Agreement To Protect Deposits

On June 28, 1996, \$549,430 of the former Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff's office should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff's office enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Former Sheriff H. D. Moses' Response:

This has been corrected.

WHITLEY COUNTY
H. D. MOSES, FORMER SHERIFF
Calendar Year 1996
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESS

The Former Sheriff's Office Lacked A Proper Segregation Of Accounting Duties

We conclude the internal control structure lacked a proper segregation of duties. There was a limited staff size which prevented an adequate division of responsibilities. The former Sheriff had statutory authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements. We recognize the extent of segregation of duties is a judgement established by management. We also recognize this judgement is affected by certain circumstances beyond the elected official's control, such as functions prescribed by statutes and regulations and by budgetary constraints. Due to limited staff, a proper segregation of duties may be impossible. However, the lack of adequate segregation of duties is hereby noted as a reportable condition and material weakness pursuant to professional auditing standards.

Former Sheriff H D. Moses' Response:

There is nothing we can do about this.

PRIOR YEAR:

- Former Sheriff H. D. Moses Did Not Maintain An Accurate Record Of His Receipts And Expenditures
- Former Sheriff H. D. Moses Did Not Deposit Receipts Daily And Reconcile To Checkout Sheets
- Former Sheriff H. D. Moses Should Have Published His Annual Settlement
- Former Sheriff H. D. Moses Should Have Entered Into A Written Agreement To Protect Deposits
- The Former Sheriff's Office Lacked A proper Segregation Of Accounting Duties

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Mike Patrick, Whitley County Judge/Executive
Honorable Ancil Carter, Whitley County Sheriff
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Members of the Whitley County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Whitley County Sheriff as of December 31, 1996, and have issued a qualified opinion in our report thereon dated May 24, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Whitley County Sheriff's financial statement as of December 31, 1996, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Fiscal Court Should Require Better Recordkeeping Of The Sheriff's Office
- Former Sheriff H. D. Moses Did Not Present An Annual Settlement To The Fiscal Court Nor Did He Publish An Annual Settlement In The Local Newspaper
- Former Sheriff H. D. Moses Should Have Submitted Quarterly Reports To The State Local Finance Officer
- Former Sheriff H. D. Moses Did Not Maintain Adequate Time Records For All Employees of His Office
- Former Sheriff H. D. Moses Should Have Required The Depository Institution To Pledge Or Provide Sufficient Collateral And Should Have Entered Into A Written Agreement To Protect Deposits

Honorable Mike Patrick, Whitley County Judge/Executive
Honorable Ancil Carter, Whitley County Sheriff
Honorable H. D. Moses, Former Whitley County Sheriff
Members of the Whitley County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Whitley County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Fiscal Court Should Require Better Recordkeeping Of The Sheriff's Office
- Former Sheriff H. D. Moses Did Not Present An Annual Settlement To The Fiscal Court Nor Did He Publish An Annual Settlement In The Local Newspaper
- Former Sheriff H. D. Moses Should Have Submitted Quarterly Reports To The State Local Finance Officer
- The Former Sheriff's Office Lacked A Proper Segregation Of Accounting Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 24, 2000

